THE MONETARY COMMISSION AND ITS WORK.

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THE report of the Monetary Commission which has been recently submitted to the country is the outcome of a movement which was begun in the middle West something more than a year ago. The business men of Indianapolis conceived the idea of inviting all the business organizations of the country, such as the Chamber of Commerce of the City of New York and the Board of Trade and Transportation, to send delegates to a convention to be held in Indianapolis in January a year ago, the object of such a convention being to consider the currency situation in the United States and to take measures to unite the business men of the country in an effort to improve it. The response to this invitation was very satisfactory to the gentlemen in Indianapolis who had started the movement. Something over three hundred delegates assembled and were an exceedingly intelligent body of men. After thorough discussion it was decided to ask Congress to authorize the President to appoint a commission, which should consider the whole currency question and make a report thereon to Congress. If, however, Congress should not authorize such commission then the Executive Committee of the Indianapolis Convention was authorized to appoint a commission itself, which should consider the subject and report to that Executive Committee.

President McKinley recommended Congress to give him the authority to appoint a commission. A bill to that effect was introduced and passed the House of Representatives, but failed to pass the Senate. Thereupon the condition contemplated by the Indianapolis Convention having arisen, the Executive Committee appointed a commission composed of T. G. Bush, of Alabama;

W. B. Dean, of Minnesota; George F. Edmunds, of Vermont; Charles S. Fairchild, of New York; Stuyvesant Fish, of New York; J. W. Fries, of North Carolina; Louis A. Garnet, of California; J. Laurence Laughlin, of Illinois; George E. Leighton, of Missouri; C. Stuart Patterson, of Pennsylvania, and Robert S. Taylor, of Indiana. In the early fall this Commission met in Washington and chose Mr. Edmunds as chairman and Mr. Leighton as vice-chairman. They also chose two assistants to the Commission, L. Carroll Root and H. Parker Willis, whose duty it was to examine statistics and collate information for the use of the Commission. Letters were written to business men and others in all parts of the country asking their opinion upon stated propositions concerning the currency. There was a general response to these letters, and many valuable suggestions were gathered from them by the Commission. The Commission considered the currency subject in great detail, dividing it generally into the heads of The Standard, Metallic Money, Demand Obligations of the Government, and A Bank Note System. These general heads were then subdivided into subheads, which were considered by the Commission and discussed at length, the acceptance or rejection of each proposition being decided by a call of the roll. The discussions were thorough and exhaustive. The subject was approached by each member of the Commission judicially. Every man tried to learn from his fellow-members, from the correspondence, and from recognized authorities all that he could upon the subjects considered. There was the utmost fairness and candor and openness of mind and a resolute attempt to reach a substantial agreement upon measures for the solution of the currency question. These men by no means agreed when they met. Their agreement was the result of discussion and of self-education on the part of each member of the Commission; all done with a determination to arrive at the truth. It was an agreeable occupation; every member of the Commission at the end truthfully expressed the pleasure and benefit that he had derived from the discussions and work of the Commission. It was a useful lesson as to how such subjects should be considered without passion or prejudice, and as purely scientific and business propositions. As I have stated, the effort was to agree upon the truth and upon what would be beneficial to the country if enacted in law.

The attempt to devise something which might meet the immediate approval of Congress was given up early in the life of the Commission, the members all coming to the conclusion that it was not their function to ascertain the temper and disposition of Congress. That is rather the function of the Committees of Congress.

The Commission was greatly aided by the advice and encouragement of the Executive Committee, and particularly of its Chairman, H. H. Hanna, of Indianapolis, who is showing zeal and devotion to public interest, combined with intelligence, that is very rare ; a striking example of what can be done by business men if they choose to give their time and ability to public questions.

The great service that the Indianapolis Convention can do the country will be to furnish something upon which the sound money men who think that there should be affirmative legislation can unite. Heretofore all men have called themselves sound money men who stood together in opposition to the free coinage of silver by this country alone at 16 to 1. No serious attempt has been made to secure an agreement in favor of affirmative legislation to cure existing evils in our currency system and to remove the dangers that lurk in it. This situation is a great disadvantage, because undoubtedly our currency system is seriously defective, and if those who are in favor of its improvement cannot or do not act together the country will experience from time to time the troubles that come from existing defects, and constant efforts will be made by those dissatisfied with existing conditions to produce others still more injurious. It is dangerous for the men who are opposed to free silver to stand still ; they must remedy existing defects, or some day the dissatisfied will try to cure the evils that they feel by methods which in the end will greatly aggravate them. It would be a serious reproach to the intelligence and patriotism of our business men if, either from inaction or indifference or inability to act together in promoting wise remedial measures, great disaster should come to them and their enterprises.

If the gentlemen of Indianapolis who have promoted this movement succeed in producing such unity among business men as will render their legitimate influence surely effective, they will have rendered an inestimable service to the country ; if more

unity among business men cannot be attained than in the past, then no legislation can be hoped for at Washington. Congress cannot be asked to legislate when those whose judgment ought to be governing upon such legislation cannot agree what it should be.

The Commission reported that the already existing gold standard should be maintained and that everything should be done by government to strengthen confidence in the maintenance of that standard. The gold standard, in the judgment of the Commission, is not the creation of government, but is the result of concurring habits of business men throughout the civilized world. Governments adopt standards of value: they do not create them. One who studies the history of money will be impressed with the truth of this. It will be found that the standard by which the value of property and services has been measured from time to time, whatever that standard may have been, has not been the result of laws nor even of conscious agreement among individuals, but has rather been the result of the habits of each individual concurring with those of his neighbors. Sometimes this standard has been one thing and sometimes another, but whatever it was, it has been evolved in the way described. The higher the civilization, and the greater the amount of values to be measured, the more exact has become the instrument with which the measurement is to be made, until finally in this way gold has become the standard in use for the measurement of values in all the civilized world.

Government cannot by law try to change a standard thus evolved without doing harm thereby; this is the unfailing teaching of monetary history.

Of late years governments, for the convenience of their people, have almost universally been compelled to declare that gold should be the legal standard in the various countries of the world, thus conforming law to the already established actual standard. This is a fact like other facts of nature. It is waste of time to discuss whether this should be a fact or not or whether there is a sufficiency of gold for business purposes. Mankind has determined by the irresistible forces of concurrent action that gold shall be its monetary standard. It is the duty of government, having ascertained this fact, to conform law to it. If civilized mankind shall ever find that this standard does not serve its

purpose, then it will evolve a new standard in the same way in which it has evolved standards in the past.

The Commission also provided practically for the continuance of the present coinage of subsidiary and minor coins, but distinctly provided that no more silver dollars should be coined. It also provided that the ordinary funds of the Treasury should be separated from those needed to redeem and sustain the demand obligations of the government, including silver dollars and subsidiary and minor coin, and should keep the funds for the redemption and guaranty of the bank notes to be issued under the system recommended to be established. It directed that a reserve of 25 per cent. in gold should be held in this division of the Treasury against the United States notes and Treasury notes, and a further sum equal to 5 per cent. of the amount of silver dollars, and it imposed the duty upon the Secretary of the Treasury to maintain this gold reserve in this division, and it authorized him to transfer his surplus revenue, if any there be, to this division for that purpose, and also to sell 3 per cent. bonds which shall be redeemable at the option of the government after one year. It also authorized him to issue bonds payable in from one to five years to provide for any deficiency in the ordinary revenues of the government. A special provision was incorporated to enable people to take an interest in government loans by a simple credit on the books of the government in the same way as is done in some foreign countries, thus relieving people from the necessity of taking personal charge of the securities with the danger of loss, and also enabling anybody to easily subscribe for the government obligations, it being provided that such subscriptions and payments might be made at any money order post-office.

Silver dollars are to be continued, but all paper money except silver certificates below $10 is to be cancelled as it comes in, thus making a place for the silver dollars or their certificates in performing the function of large change. If this were done there would be immediate use for all but about fifty millions of the present silver dollars. These silver dollars, however, are to be exchangeable for gold whenever the holder of them wishes the exchange, thus providing specifically for carrying out the pledge of the Sherman law, and also treating them as we treat our half dollars, quarters, and dimes in respect to their exchange.

The fear has been expressed by some that the silver dollars

under this provision would be a dangerous instrument by which gold could be extracted from the Treasury. Reflection will cause a modification of this fear, because, in the first place, they being made absolutely good by this provision, no one will have any motive to present them in exchange for gold except the desire to have gold for use in their place. This desire to obtain gold with them will be modified by the fact that their limited number will cause them to be needed everywhere for the purposes of smaller circulation. They will thus become scattered, they will be carried in the pockets of the people, they cannot accumulate anywhere in large amounts, so there will be no motive to present them especially for gold, and there will be a strong motive to retain them because of the use that they will serve, while, because of their wide diffusion it will be physically impossible to present them for gold in any large sums. It is proper and necessary that the government should at all times be ready to give the holder of the silver dollar gold for it should he so desire. This is wise, prudent, and honorable.

Provision is made that the Secretary of the Treasury may sell, in his discretion, the uncoined silver bullion; this because it will be a useless asset in the Treasury, and the government should have the benefit of the proceeds, if it can make the sale to advantage; it can use the gold received in payment for it to strengthen its reserve. The gold certificates and currency certificates are not to be reissued, because it is not thought to be the function of government to use its vaults as a warehouse. If banks wished the certificates for their convenience they could appoint a trustee of their own, as is done already in some cities. The silver certificates in denominations less than ten dollars, however, are to be continued at the option of the people. This was recommended because it was believed that more silver would be used in this way than in its coin form, and that therefore there would be less demand upon the Treasury for the redemption of silver in gold. This provision was made for the protection of the Treasury until such time as the business of the country could easily absorb all of our silver circulation. When that time comes, if it is deemed wise, the silver certificates can be retired like the gold certificates.

The next thing that was considered by the Commission was the retirement of the paper demand obligations of the govern-

ment, those that are technically called United States notes and Treasury notes, and it was provided that as fast as they were presented for redemption in gold they should be cancelled up to the amount of fifty millions of dollars; after that no more should be cancelled for five years except an amount equal to and not exceeding the increase of national bank notes issued after the cancellation of the fifty millions of the government notes. At the end of five years, one-fifth of the amount then outstanding shall be retired and cancelled as presented for redemption in gold each year, irrespective of the amount of bank notes that may be issued, and at the end of ten years all that was then outstanding shall cease to have the legal tender quality.

Every member of the Commission was pronounced and decided in the opinion that this provision should be made for the retirement of the demand obligations of the government. There was no difference of opinion whatever upon this subject. The only discussion was over the means by which this should be done in order that there might be no sudden or injurious derangement of the currency or an absence of currency tools for the transaction of business. There was some difference of opinion as to the means taken to prevent derangement by giving goverment officers power to reissue the government notes rending the completion of this plan. There was no difference as to the desirability of the final result. The Commission could find no argument in favor of the continuance of these demand obligations which seemed to them to be of substantial weight. They did find many arguments in favor of their cancellation.

The present laws leave the quality of those notes dependent on the will of the Executive ; upon the quality of those notes is based the quality of all obligations contracted in business, except those specifically payable in gold, consequently almost all of our business structure is involved in the result of elections and will be, so long as these obligations remain outstanding. Business is, as it were, a wager on elections. Then, too, it is dependent upon the balance between the revenues and expenditures of the government. If the government had no demand obligations, a deficiency of revenue would be of little importance to business ; it would be something that everyone would know could be easily cured by the increase of revenue or reduction of expenditures. Private credit would not be affected by it at all, and public credit hardly at all,

probably not at all; but now a serious deficiency in revenue produces uncertainty in all contracts and causes distress not only here but wherever our business and our obligations are distributed over the world. This is an intolerable condition, productive of vast loss at times and increased expense at all times. It perverts the notions of the people because it leads them to suppose that government, by investing something with the legal tender quality, can thereby give it value—a dangerous fallacy, pregnant with mischief but very specious. At first one supposes that the legal tender quality must give great value, for at least the thing indued with it will pay past debts, yet there have been time and again moneys invested with this quality that have become utterly worthless, while there were plenty of past debts that could be paid with them. Men at various times in history, and a large number now in our country, have believed and do believe that the legal tender quality, the fiat, is the thing which gives chief value to money, quite oblivious of the experience of other generations with fiat money. They are theorists pure and simple and refuse to look at facts, and yet if they will theorize a little further they will see that their own theory is baseless.

Out of what can the fund which will discharge past debts be accumulated? Manifestly it can only be from the profits of current transactions, and in the nature of things the proportion of past debts to current transactions must be exceedingly small. Therefore the power given to money by the legal tender quality must be exceedingly small, because that thing which will not perform the functions of money in most of the transactions of men will be of little value as money. The thing which will not give him food and shelter and clothing, in short, which will not keep him alive while his debt is accruing, is not money in any sense. The statistics of our census since 1890, which attempt to give the amount and period of the indebtedness of the country, when compared with the Clearing House transactions of a single year, show that not more than four per cent. of the transactions of that year can consist of the liquidation of debts that antedate that year, and it is well known that a large portion of the transactions of the people do not appear in the Clearing House accounts. Therefore, manifestly for both practical and theoretical reasons, it is for the benefit of the country that the demand obligations of the government should be retired and cancelled, and

that nothing should remain as legal tender which is dependent for its value upon anything but its own intrinsic value; that the government credit should not be used except distinctly as a credit in the shape of bonds, and that nothing should be made a legal tender which is dependent in any degree for its value upon credit. Credit, not legal tender, is that which gives the demand obligations of the government their whole value. From this general principle, of course, can safely be excepted those moneys which do the small change work of the people. The convenience which is promoted by these moneys far overbalances any harm that can come from using the government credit to sustain them. In this category the Commission thought that under the provisions of their proposed measure the present amount of our silver dollars in existence could be safely included.

Much is said of the importance of the quantity of money. The writer apprehends that government has very little power over the quantity of money. It has considerable power over the quality, and it can probably be stated as a maxim that the higher the quality of the circulating medium the greater will be its quantity. The circulating medium consists of money of all forms, and, in a far greater degree, of checks, credits, and even unwritten agreements between men by which property is transferred. If any portion or any one of the branches of the circulating medium becomes impaired in quality, the quantity of that branch will shrink in volume, and so will the quantity of all the other branches shrink in volume. For example: Let a business house fail. Of course that part of the circulating medium which consists of its credits shrink, but all other credits shrink to a greater or less degree, dependent upon the importance and significance of the failure. Not only that, but the amount of circulating medium in money shrinks because men hoard it. If the quality of that portion of the circulating medium composed of money is impaired in quality, the amount of money actually in circulation shrinks because men hoard the best; also that portion of the circulating medium composed of credits shrinks, for men are doubtful what their balances will be paid in and, therefore, curtail credits; so it may fairly be said that if a community wishes the maximum of quantity in circulating medium it must see to it that the maximum of quality is preserved.

The final recommendations of the Commission provide a sys-

tem for issuing bank notes which will in ten years do away entirely with the present requirement of the deposit of bonds with the government. Substituted therefor are the united resources of all the banks that shall issue notes. As to this, too, the Commission after long and careful consideration agreed unanimously without doubt or reserve. They considered the nature of the assets of the banks of the country, and were impressed by the magnitude of the fact that these assets were secured by and based upon the active business of the country, and that their goodness was based upon that which was the condition precedent of all solvency, corporate and governmental; that no disaster could occur which could affect the value of notes thus secured; that no business revulsion had ever taken place in this or any other commercial community of an extent that would have impaired the value of bank notes had they been thus secured. It is conceivable that a government may become bankrupt while the great portion of the private business of its country remains solvent; this has often occurred. It is not conceivable that the bulk of the private business of a country can become worthless and the government of that country remain solvent; this has never occurred. The banks are bound thus together not for the purpose of securing the individual noteholders but in order that by reason of the deficiency of a single bank discredit may not be thrown upon all bank notes. The object of this is to secure the efficiency of all the notes in the highest degree at all times and under all circumstances.

This thought is worthy of consideration and is useful in showing us what government should do in this regard, and that is to try and ascertain why it is that government should interfere at all between man and man as to these small demand obligations called bank notes; why it should provide any greater safeguards for them than it does for any other obligations. Obviously the primary object is not to protect the holder of the notes from loss because of the failure of the issuer of them to pay. If that was the sole object, government would grossly and unfairly discriminate between different classes of creditors. There must be some other reason which has conferred the right upon government to peculiarly guard bank notes. The right is acquired thus: Bank notes or those demand obligations have been found to serve the convenience of man in the transfer of property and services, but to serve that convenience in the highest degree the notes must have

great rapidity of movement. To have this it is necessary that they should be issued under a system provided by somebody trusted and known. Government is the best person to provide this system. The system being known, the man to whom a note is offered is not obliged to learn the responsibility of the issuer of the note to determine its value; he simply need know the system under which it is issued.

Government performs almost the same function in coining gold that it does when it provides a system whereunder notes can be issued to serve as currency and certifies that the notes are issued under that system. In neither case does it contribute any capital; that is contributed in both cases either by the party issuing the note or by the owner of the bullion. The government in neither case confers much benefit upon the issuer of the note or upon the owner of the bullion. Either of them could use his resources about as well without government action; but government in both cases confers a great benefit upon the community that wishes to use either the notes or the coins, because it saves the need in the one case of ascertaining the responsibility of the note, and in the other case it saves weighing and assaying. Thus government saves time and reduces in the one case the amount of bank notes necessary to transact business, and in the other the amount of metal necessary for that purpose; it enables a smaller amount of capital to do a greater amount of business, and thus promotes economies that benefit all persons who are engaged in business.

In order to fully comprehend the subject, it is well to consider how instruments like bank notes could be issued in a natural way without the intervention of law.

Suppose the case of a man living in a village who wished to buy the produce of the farmers in his neighborhood, he not having ready money with which to pay for the produce, but having credit with those from whom he was to purchase. He might go to the farmers, offer to purchase the butter, or cotton, or wheat, and to give his notes in payment therefor with interest, and payable, say, in three months. He would say to the farmer: "Within that time I shall have disposed of the produce that I purchase from you and be able to meet my notes." The farmer might reply: "I will be very glad to sell you my produce, but your time notes will not be convenient for me. I have my la-

borers to pay; I have a number of small bills at the stores, and I wish something on hand with which to make certain purchases during the coming three months. I am willing to trust you, and all my laborers and the storekeeper will trust you, but we wish something with which to settle accounts between ourselves. Can you not give me your demand obligations cut up into small sums, say of one dollar, five dollars, ten dollars? If you will do this I can at once settle my obligations to my laborers, to the store, and my laborers can settle their obligations; the convenience of all of us will be greatly served if you will do this. You will, of course, have more trouble thus than you would if you simply give us your time obligations, and you will also have to keep a certain sum of money ready to meet a portion of these demand obligations that will be presented to you earlier than the three months. Now, to compensate you for your trouble in these various ways, we will all be glad to take these obligations of yours without interest." The buyer of the produce would probably be glad to do this, and having done so he would not only benefit himself, but he would have served the convenience of his neighbors. When his produce was sold he would be in funds to take up all of these obligations, and the whole transaction would be completed and he would be ready to go over a like process the next year when the farmers were ready to sell.

Suppose, however, that the farmers, instead of saying this to him, had said: "We do not wish to trust you; but if you will buy some bonds, and put them in the hands of a trustee, we will then take your demand obligations." The buyer of the produce might well hesitate to do this, for, in the first place, it would take a certain amount of capital with which to buy the bonds; he would be uncertain whether he could dispose of the bonds when the notes had returned to him, and, altogether, the transaction would be less convenient and less serviceable to the community; but, however, he might buy the bonds and put them in trust for his notes and then let the transaction go on as before. But when the notes had all been returned to him he would then have an investment in bonds at a very low rate of interest, and his temptation would be to use these notes before the time came to buy the farmer's produce—to use them in other ways not legitimately connected with his business. Should he do this, when the next year came he would not be in a position to issue his

obligations to buy the farmer's produce because his obligations would be in use elsewhere.

Now, permitting a bank to issue its obligations without the deposit of bonds is following the natural and simple course which such transactions would take. A deposit of bonds is obviously artificial and unnatural and less conducive to the convenience of the community than the former method; and if the former method can be so safeguarded as to make the notes issued thereunder fully as safe as they would be if the bonds had been deposited in trust against them, then obviously the former method is better for all concerned. It is shown elsewhere that, under the system provided for binding the assets of all of the issuing banks together, the notes would be as safe; so reason would seem to indicate that the course should be followed.

The principles under which bank notes should be issued and their safety insured having been satisfactorily shown, as it seems to the writer, the only consideration that remains is as to the attitude of the banks toward the whole matter. The report of the Commission shows that had all of the banks of the country issued and kept issued notes equal to 80 per cent. of their capital since the formation of the national banking system, thirty-five years ago, under a plan like that proposed, the annual assessment upon them to make up loss on failed banks would have been about one-fortieth of one per cent. per annum upon their circulation. Take the worst year in the whole history of the National Banking Act, viz., 1893, not counting collections yet to be made of the assets of the banks that failed in that year—and the Comptroller reports that there will be quite large collections from that source—the assessment for the loss of that year would have been only one-eighth of one per cent. upon the circulation. It seems, therefore, that the danger of loss to the banks entering into this mutual assurance system would be so small that its consideration may be neglected.

Men apprehend, however, that under the proposed system there would be such enlarged opportunities for fraud that the danger would be much greater. Of course every safeguard should be created against fraud, and the Commission have tried to propose additional safeguards which will help, but they do not feel that that subject is exhausted in their recommendations and would approve that the most thorough and stringent measures be provided. In looking over, however, the history of the

national banking system and seeing how great the opportunity for fraud is under it now, and finding how small the losses have been from that source as distinguished from misfortune or incompetency, we are led to the conclusion that the fear of substantial loss from that cause is groundless. In a civilized country the loss from fraud is insignificant. If the disposition to fraud among business people existed in sufficient degree to cause serious loss under this system, then the community would have gone back so far toward barbarism that all business would be compelled to shrink to comparatively small proportions because of its unsafety.

The committee gave careful thought to all these probabilities and dismissed the subject with the firm belief that no bank need hesitate to enter the system because of fear of loss from any cause. The profit to banks is of course considerably enhanced ; it will inure chiefly to the benefit of country banks, for it is the customers of those banks that use bank notes in the largest proportions. This is shown by the fact that seventy-two per cent. of all the bank notes of the country now in existence are issued by banks outside of the twenty-seven reserved cities, and that the balance, eighteen per cent., is issued by the reserved cities other than New York, Chicago, and St. Louis, and that the latter two cities only issue about one-half of one per cent., while New York issues about eight per cent. But this is only fair, for the check and deposit system which is used in the great cities is far more profitable, owing to the deposit and redeposit of loans, than the note system alone ; and the latter under the present system, when money bears six per cent. interest, is not profitable at all.

The Commission recommends the removal of the tax from the notes as being an unfair distribution of the expenses of the system ; it thought that it should be assessed on capital and surplus.

The Commission believed that the fair and careful consideration of the plan proposed would lead to its general approval by business men. In this belief they returned it to the Executive Committee of the Indianapolis Convention, whose efforts to secure its substantial enactment into law they hope will receive the hearty and energetic support of all the business communities of the country whose welfare is so profoundly involved in the establishment upon a safe, practicable, and permanent basis, of our whole monetary and banking system.

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